

SECRET

January 18, 1946

A-C - Mr. Thorp

The short study, United States Trade with Eastern Europe, attached to this memorandum was prepared in answer to your request of December 29, 1945 for a brief summary of the pre-war United States interest in the trade of Eastern Europe.

As you will note, the direct interest of the United States in Eastern European trade was normally slight. The principal export commodities of the Eastern European countries (except Czechoslovakia) have been agricultural products or raw materials, most of which are not of interest to the United States. While there are many United States exports which the countries of Eastern Europe might eagerly purchase now that Germany is eliminated as a primary supplier of manufactured products, the real limitation on imports from the United States remains the lack of complementary exports from Eastern Europe which are of sufficient interest to United States importers. American exports to Eastern Europe were highest in the period of the twenties when they were being underwritten by the eager extension of credits by American investors through the purchase of Eastern European bond issues. When such credits collapsed, the commercial structure in large part dependent upon them also collapsed, and by 1938 total American trade with the area had declined 55 percent from the 1926-1930 average.

This question of finding commodities available for export from the area to be offered in return for direct imports from the United States remains a problem in our post-war commercial relations with Eastern Europe. The interest of the United States in preserving some structure of multilateral trade in Eastern Europe will probably be more practically served by the revival of the trade of these six countries with Western Europe and the Mediterranean which in the

immediate

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immediate pre-war years (1937 and 1938) supplied an average of 24 percent of the region's imports and took an average of 29 percent of the region's exports.

You raise one specific question with respect to the reference in the December 6 report regarding "unnatural" trade channels and the implication that pre-war channels were "natural". The intention of the December 6 report was to point out the discrepancy between the pre-war Soviet share in the trade of Eastern Europe and the proportion which it is apparently attempting to hold on the basis of the agreements thus far concluded and under the critical conditions at present prevailing. Since the U.S.S.R. economy was before the war supplementary to Eastern Europe's rather than complementary to it, the modest Soviet share of trade with that area can be presumed to have had some relationship to an economically "natural" structure of trade, allowance being made for the effect of European clearing agreements and protectionist policies. However, as pointed out in the December 6 study, Germany has been removed as the primary market and source of imports for Eastern Europe. The "natural" structure of Eastern European trade vis-a-vis the U.S.S.R. in the future will depend upon developments in Soviet economy. If the Soviet economy is altered so that the country becomes an exporter of manufactured products and an importer of the raw materials and agricultural products which Eastern Europe can offer, its natural interest in Eastern European trade will be larger than its pre-war interest.

However, on the basis of the traditional economic development of Europe and pre-war trade patterns, it seems more reasonable that Western Europe and the Mediterranean might become the primary market and source of imports for Eastern Europe, with both the United States and the U.S.S.R. taking secondary places in their trade. This, of course, is based upon the rather questionable assumption that the structure of trade in Eastern Europe will be determined on strictly economic grounds.

There is one error in the December 6 report which should be corrected. The sum of \$50,000,000 a year set for reparations to the U.S.S.R. from Bulgaria is

incorrect

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incorrect since the Armistice agreement with Bulgaria, unlike the agreements with the other Eastern European countries, merely stated that "the Bulgarian Government will immediately make available certain foodstuffs for the relief of the population of Greek and Yugoslav territories which have suffered as a result of Bulgarian aggression. The quantity of each product to be delivered will be determined by agreement between the three governments and will be considered as part of the reparation by Bulgaria for the loss and damage sustained by Greece and Yugoslavia." The sum of \$50,000,000 should therefore be deducted from the totals cited in the first paragraph under Conclusions Regarding Trade Agreements. The annual reparations figure should be \$130,000,000, and the figure for total imports \$260,000,000, a figure still slightly in excess of total Soviet imports prior to the war.

Winthrop G. Brown

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UNITED STATES TRADE WITH EASTERN EUROPE

The group of six Eastern European countries selected for the purposes of this study are those countries which seem most likely to fall within a Soviet dominated trade orbit on the basis of the trade agreements and other economic agreements concluded thus far. The conclusions reached for these countries would generally hold true if Austria were included in the group, or under the more remote likelihood of Greece being included.1/

Volume of United States Trade with Eastern Europe

The tables in Annex II of the Analysis of Agreements Concluded Between the USSR and the Countries of Eastern Europe show the limited extent of pre-war trade between the United States and the countries of Eastern Europe in the years immediately before the war. In none of the years cited did United States trade with any of these countries amount to much more than 1 percent of total United States exports or imports. United States trade with the whole group of six countries never during the inter-war period amounted to more than 2.6 percent of total United States exports or imports. This was an average for 1926-1930 of only about 5.5 percent of United States exports to Europe as a whole and about 3.5 percent, of United States imports from Europe as a whole, for an area in which over a quarter of the people of Europe live.

Only in the case of Czechoslovakia and Poland did United States trade form a significant part of the total trade of any Eastern European country. In the case of Poland, the United States supplied as much as 15 percent of total Polish imports and took as much as 8.6 percent of total Polish exports in the pre-war years cited. In the case of Czechoslovakia, the United States supplied as much as 10.2 percent (12.5 percent for 1926-1930) of Czechoslovak imports and took as much as 9.3 percent of Czechoslovak exports. For Hungary, Rumania, Yugoslavia and Bulgaria, imports from the United States in no instance amounted to much more than 6 percent of total imports, and exports to the United States not over 5 percent of total exports.

While the volume of United States trade with Eastern Europe changed to some extent during the inter-war period, it has always remained small in relation to the total trade of either the United

States

1/ Appendix 4, "Intra-Regional and International Trade of Certain Eastern European Countries," appended to Commercial Policy Aspects of a Possible Unification of Eastern Europe, July 10, 1942, considers such a larger group of Eastern European countries.

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States or the countries under discussion. A profitable comparison can be made with the level of United States trade in an earlier period. Table I compares the United States trade interest in Eastern Europe in 1925 and the average for the period 1926-1930 with its trade in the last normal pre-war years (1937 and 1938).

This table indicates in outline an over-all decrease of 55 percent in total United States trade with the area. The amount of United States exports to these six countries of Eastern Europe in 1938 was 62 percent below the 1926-1930 average, while United States imports from this area were 35 percent below the 1926-1930 average. United States imports thus held up somewhat better than United States exports. This was due in large part to bilateral balancing arrangements and other restrictive commercial policies adopted by these countries in the early 1930's which had the effect of reducing substantially their imports from the United States as well as certain other countries. In spite of the fact that imports by these countries from the United States decreased by nearly two-thirds, the United States share of their total imports rose from 6.5 percent for the 1926-1930 average to 8.3 percent in 1938. The same tendency can be noted in the total exports of the area. Although by 1938 United States imports from the whole area had declined by over a third from the 1926-1930 average, the United States share of the area's total exports rose slightly from 3.2 percent to 4.5 percent.

The area as a whole imported more from the United States than it exported to the United States. The positive trade balance of the United States with the area, however, diminished considerably over the period. The excess of United States exports to these six countries over imports from the area in 1938 was only 23.5 percent of the 1926-1930 average excess of exports, a decrease of 76.5 percent. This rate of decrease surpassed the rate at which the total value of United States trade with the area decreased. This decrease in the United States export balance with the area is in part explained by the diminution of capital flowing into the area from the United States in the latter 1930's. In the earlier period American investors were buying the high-yield bonds of these countries while in the later period this movement largely ceased and some of the countries were servicing their foreign debts.

Nature of United States Trade with Eastern Europe.

Table III summarizes the types of commodities which entered into trade between the United States and the countries of Eastern Europe in 1933. The year selected should give a fairly normal picture of this trade, for in the later pre-war years the nature of imports

from

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from the United States changed to some degree as a result of intensive armament programs - increased imports of copper, scrap iron, oil, etc. This was notably the case with Poland. Since the composition of United States imports from Czechoslovakia differs considerably from the composition of United States imports from the rest of Eastern Europe, a breakdown is included for Eastern Europe minus Czechoslovakia. The table also compares the composition of United States trade with Eastern Europe with the composition of United States trade with Europe as a whole.

It can be seen that Eastern Europe supplied the United States with a larger proportion of crude materials than was the case for Europe as a whole, and in turn took from the United States a larger proportion of crude materials than was the case for Europe as a whole. The most important item in this category for United States exports to Europe was raw cotton, and such commodities as iron and steel scrap or crude copper. Such items as skins, tobacco, minerals, and inedible animal or vegetable products were the principal items in United States imports of crude materials from Eastern Europe. United States imports and exports of feedstuffs were understandably lower than the level of such trade with Europe as a whole since this area is largely self-sufficient in feedstuffs and at the same time has not usually been highly competitive in world agricultural markets. It will be noted, however, that the United States imported from the countries of Eastern Europe minus Czechoslovakia a slightly larger proportion of manufactured feedstuffs than was the case for Europe as a whole.

United States trade with the area for semi-manufactures plus finished manufactures was normally, of course, below the level for Europe as a whole since the industry of this area is generally not sufficiently developed to provide the United States with significant quantities of manufactured products nor is the standard of living high enough to absorb large quantities of manufactured articles from the United States. The excessive percentage (43 percent) for United States imports of finished manufactures from the total Eastern Europe area is principally due to Czechoslovak exports, which differ from those of the other countries in the Eastern European group in including relatively large quantities of such manufactured goods as shoes, textiles, jewelry, glass manufactures, leather manufactures, etc. Ninety percent of the area's exports of finished manufactures to the United States originated in Czechoslovakia. This is understandable in a country where over 40 percent of the population was normally employed in industry - a proportion surpassing the Germany of the early 1930's. It can be seen from the table that the

proportion

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proportion of finished manufactures imported by the United States from Eastern Europe minus Czechoslovakia was less than 10 percent of the total, while the proportion of crude materials was over two-thirds of the total.

Trade of Eastern Europe with Western Europe and the Mediterranean

While the direct interest of the United States in the trade of these six Eastern European countries has been inconsiderable, the trade of Eastern Europe with Western Europe and the Mediterranean has been of greater significance. The tables attached to the memorandum of December 6 show the share of Eastern European trade held by a bloc of Western European and Mediterranean countries. The Eastern European countries under consideration have had normally active balance of trade with the area of Western Europe and the Mediterranean since they export to that area more than they import from it. To a very large extent the countries of Eastern Europe have been dependent upon the markets of the West, although the terms of trade have traditionally operated against the agricultural or primary-producing Eastern countries (notably Yugoslavia, Rumania, Hungary and Bulgaria).

The United States has a certain indirect interest in the trade between Eastern and Western Europe. This country is anxious for economic and political stability throughout Europe and is interested in the preservation of a structure of multilateral trade. The failure of Eastern Europe to resume its former commercial relations with Western Europe and the Mediterranean might adversely affect the economic life of all these countries, if pre-war trade is assumed to be indicative of a normal and mutually advantageous trade pattern. The establishment of stable political conditions in both Western and Eastern Europe will be in part dependent upon stabilized economic conditions. Therefore, to the extent that the resumption of commercial relations between Eastern and Western Europe will contribute to such stabilized economic conditions, the United States has an interest in their re-establishment. In addition, since the volume of United States trade with certain countries of Western Europe is considerably in excess of the volume of United States trade with Eastern Europe, it is possible that the ability of Western European countries to trade with the United States will to some extent depend upon their trade relations with Eastern Europe.

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Summary

In summary, it is clear that the direct trade of the United States with Eastern Europe has never been large, and that there is not as yet a very substantial basis for the development of extensive commercial relations with Eastern Europe. Eastern Europe is essentially an agricultural and primary-producing area whose normal trade relations lie more properly with other countries of Europe, notably with Western Europe and the Mediterranean (and also with the Soviet Union) now that Germany is eliminated as a primary customer and market. It is to the long-term interest of Eastern Europe as well as of a world system of multilateral trade to preserve the structure of Eastern European trade with Western Europe.

Table 1
Trade of the United States with Eastern Europe
(In thousands of gold dollars)

	1925		1926-1930 Average		1937		1938	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
<u>Poland and Rumania</u>								
U.S. exports	40,636	13.8	39,772	13.5	16,700	11.9	17,650	12.2
U.S. imports	1,800	0.7	4,053	0.8	11,300	8.6	7,000	5.4
<u>Czechoslovakia</u>								
U.S. exports	33,177	6.3	66,595	12.5	23,050	10.2	17,500	12.2
U.S. imports	22,450	4.0	36,055	6.3	22,950	9.3	13,580	9.5
<u>Hungary</u>								
U.S. exports	3,559	2.4	6,130	3.3	3,700	4.5	3,700	2.7
U.S. imports	401	0.3	1,161	0.7	2,900	2.9	2,200	1.6
<u>Rumania</u>								
U.S. exports	1,153 1/2	0.9	6,436	3.7	3,400	3.9	3,900	2.8
U.S. imports	46	0.03	659	0.4	2,300	1.7	1,200	0.9
<u>Bulgaria</u>								
U.S. exports	5,824	3.9	5,611	4.1	4,260	6.0	4,090	2.9
U.S. imports	1,307	0.9	1,990	1.2	3,965	4.6	3,495	2.5
<u>Yugoslavia</u>								
U.S. exports	619	1.4	623	1.3	760	2.0	985	0.7
U.S. imports	690	1.7	858	1.9	1,460	1.8	1,395	1.0
<u>Total of 6 countries</u>								
U.S. exports	85,168	6.5	125,167	6.5	51,870	8.0	47,825	3.4
U.S. imports	26,694	2.1	44,336	3.2	44,875	6.0	26,870	1.9
<u>Balance</u>	<u>+ 58,474</u>		<u>+ 80,831</u>		<u>+ 6,995</u>		<u>+ 20,955</u>	
<u>Total US Trade with 6 countries</u>	<u>111,862</u>		<u>169,503</u>		<u>96,745</u>		<u>76,695</u>	

3/ Figures for 1938. Figures based on Foreign Commerce Yearbook, 1938 (Vol. II). 1935 and 1937: Foreign Trade of the United States 1938 (Part II). The proportion which U.S. exports to these countries form of their total imports.

3/Cont'd.

and the proportion which U.S. imports from these countries form of their total exports are shown as percentages under the percentage column. The percentages shown under the total for all the countries refer to the U.S. share in the total imports and exports of the six countries as a whole.

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Table II

Eastern European Trade with Western Europe and the Mediterranean 1/

<u>Country</u>	<u>Imports from W. Europe & Mediterranean</u> (as % of total imports)			<u>Exports to W. Europe and Mediterranean</u> (as % of total exports)		
	<u>1934</u>	<u>1937</u>	<u>1938</u>	<u>1934</u>	<u>1937</u>	<u>1938</u>
Poland	27.8	26.2	24.8	32.2	33.4	33.7
Czechoslovakia	24.4	26.5	26.2	23.3	24.5	25.4
Hungary	24.1	18.1	19.2	26.0	28.2	21.4
Rumania	36.4	26.3	30.9	45.6	39.7	37.5
Yugoslavia	29.0	16.5	18.8	35.8	34.8	23.0
Bulgaria	21.7	18.6	18.1	36.2	20.0	18.8
<u>Total of 6</u> <u>Countries</u>						
Percent	28.0	23.7	24.3	26.2	30.5	27.6
Amount 2/	126,776	153,690	139,580	135,073	226,000	175,700

1/ Includes France, Switzerland, Spain, Portugal, Low Countries, Scandinavian Countries, Italy, Greece, Turkey, Syria, Palestine and Egypt.

2/ In thousands of gold dollars.

Table III
U.S. Trade by Commodity Groups (1953)^{1/}
(in percentages)

	<u>U.S. Imports</u>		<u>U.S. Exports</u>	
	<u>From E. Eur. minus Czech.</u>	<u>From E. Eur. From Europe</u>	<u>To E. Europe minus Czech.</u>	<u>To E. Eur. To Europe</u>
Materials	67.6	37.6	66.7	62.0
Foodstuffs	2.0	1.0	2.2	2.2
Manufactured Foodstuffs	12.6	6.8	2.8	3.5
and-manufactures	8.2	11.5	7.6	8.0
Finished Manufactures	9.6	41.1	20.7	24.3
Total	100.0	100.0	100.0	100.0

^{1/} Based on figures in Foreign Commerce and Navigation of the United States, 1953, pp. 518-519.